The Real Estate ANALYST

MARCH 31 1950

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values .... Current Studies .... Survey .... Forecasts

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Number 12

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

MOST RENTS STILL BELOW AVERAGE

WHILE the inequities of rent controls are readily apparent on a national scale, they become even more so when some of the individual cities are studied. Rents in Boston, New York, Portland, Maine, and Scranton, Pennsylvania, were all frozen at only 5% above their depression low points. In Washington, D. C., rents had risen only 3% above their depression lows before ceilings were imposed, and since then have risen only another 5%. Other cost of living items in Washington have risen 108% above their low points, but rents have climbed a slow, reluctant 8%.

Since having their rents frozen at only 5% above their depression low points, these cities have shown the following rent increases: 1. New York City, 5% rise since frozen, still 7% below average; 2. Scranton, Pennsylvania, 7% increase since frozen, still 7% below average; 3. Portland, Maine, with a 10% rise since being frozen now has a rent level that is virtually average; and 4. Boston has had a 13% rise since being frozen and the rent level is now 1% above average. The term "average" as we use it in this article refers to the long-term average of the 1921-1938 period. It is not necessarily a normal rent level. In many cases it is below normal because a normal rent level is one that returns a sufficiently high net to virtually guarantee continuous production of rental housing. Over the long period, therefore, "normal" rents are strongly influenced by construction costs.

The five cities with the biggest increases since wartime rent controls were imposed are: Houston, 28%, now 13% above average; Chicago, 25%, less than 1% above average; Minneapolis, 24%, now 10% above average; Jacksonville, 23%, now 4% above average; and Milwaukee, 22%, now 5% above average. The charts on pages 94 through 97 show how these relatively small rises compare with the substantial increases in the other cost of living items. (Other cost of living items are shown by dashed red lines.)

Further study of the charts on 32 principal cities will reveal that 12 of them now have reached or slightly exceeded their average rent levels. On the other hand, some of the cities are still far below their average levels. Although Los Angeles has had a 15% rise and St. Louis a 13% rise, these 2 cities are still far below average. Rents in Los Angeles are 13% below average and in St. Louis 14% below.

Rent controls may be allowed to expire at the Federal level this June. Of course, no one can be sure until the law has been allowed to lapse, but if we were making an even money bet, we would bet that Federal rent controls will be allowed to expire this year. We might hedge a bit by giving odds that if controls are retained, they will be weakened still further.

RENTS, COST OF LIVING AND COST OF LIVING LESS RENTS

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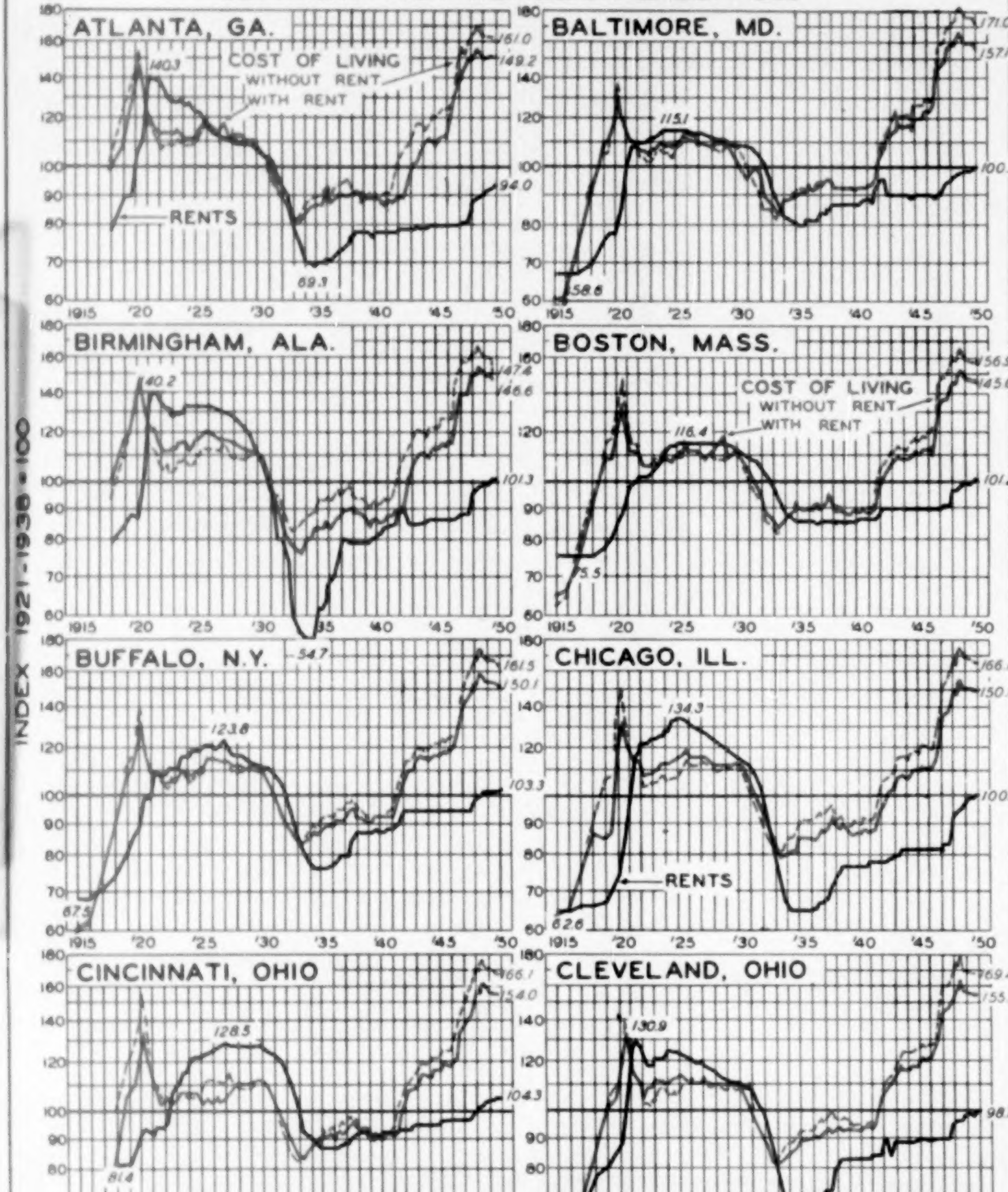

RENTS, COST OF LIVING AND COST OF LIVING LESS RENTS

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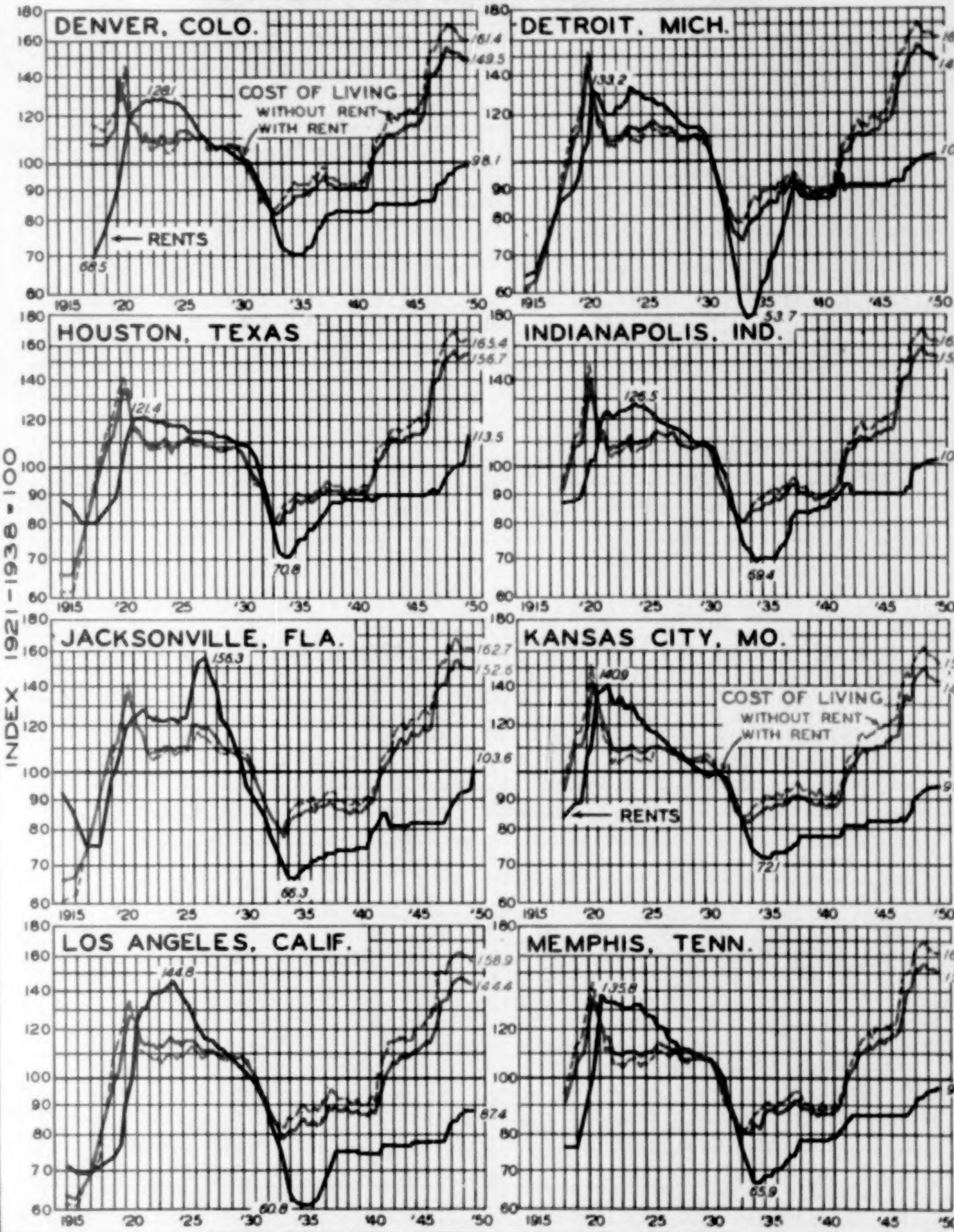

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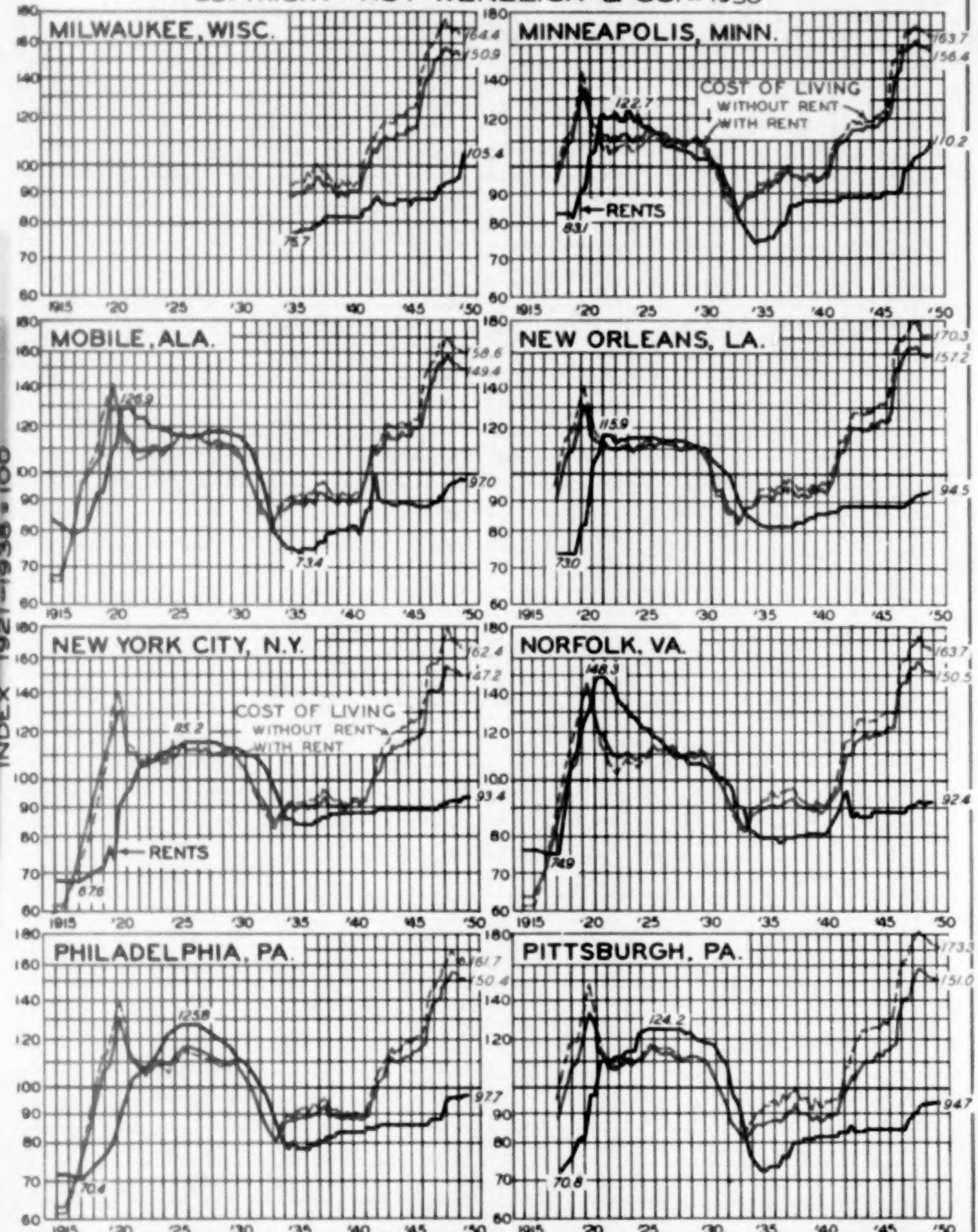

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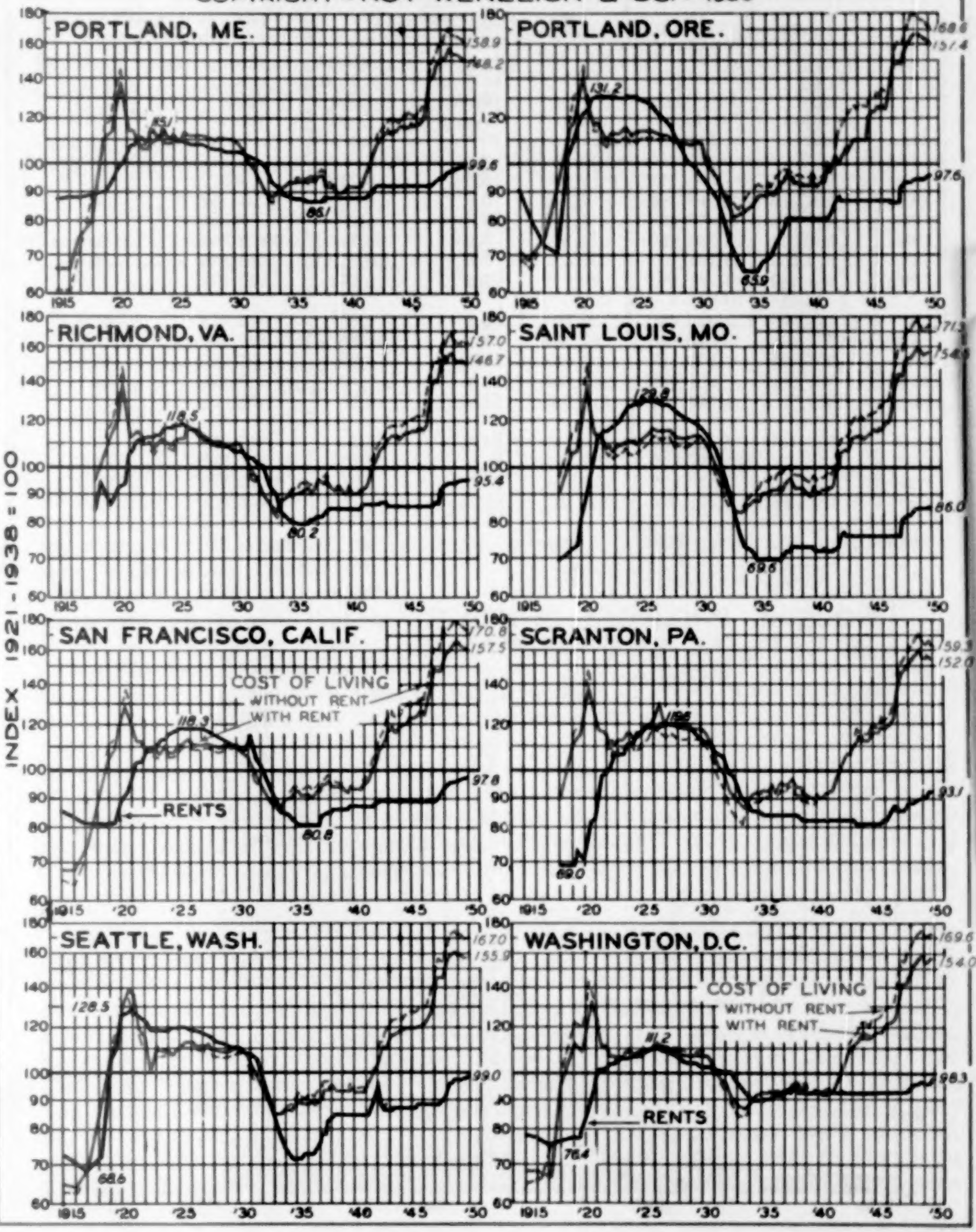
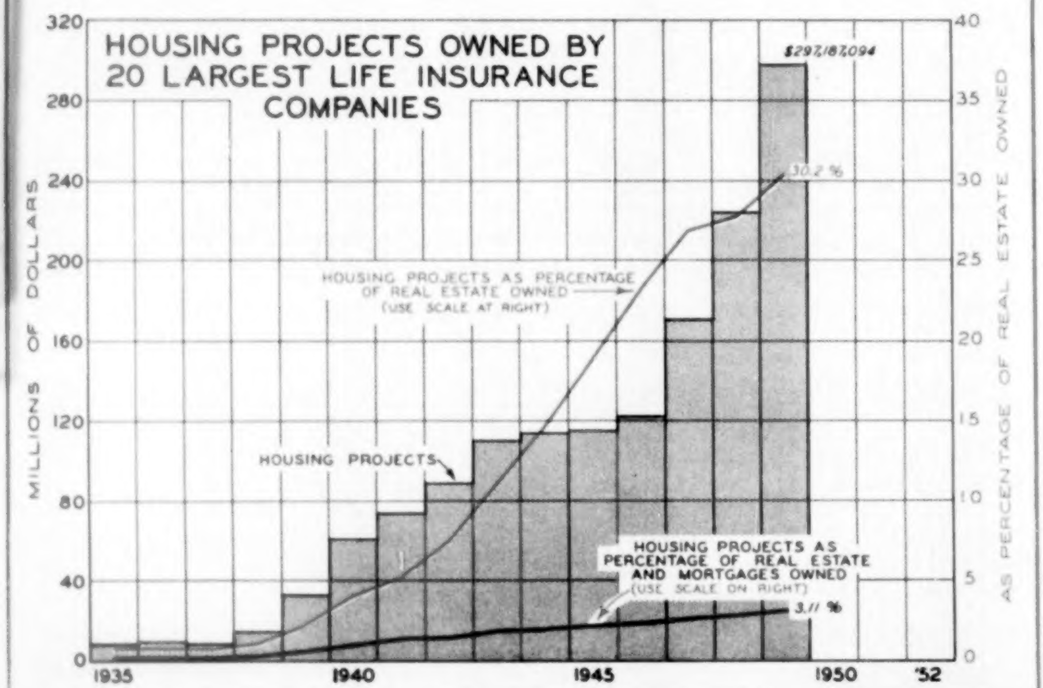


REAL ESTATE HOLDINGS OF THE 20 LARGEST LIFE INSURANCE COMPANIES

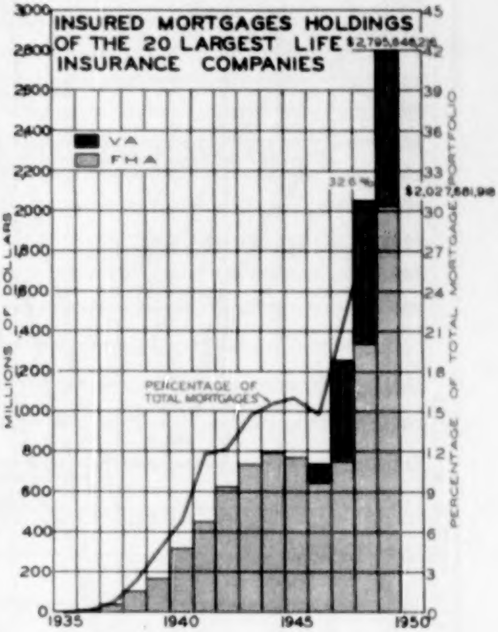
Year	R. E. owned 000's	Mortgage portfolio 000's	Housing Projects: Value 000's	Housing Projects: as % of R. E. owned	Housing Projects: as % of R. E. & mortgages owned	Insured Mortgages*: Value 000's	Insured Mortgages*: as % of mortgage portfolio
1935	$1,506,817	$4,398,771	$ 8,909	0.6%	0.15%	$ 2,377	0.1%
1936	1,626,226	4,163,356	9,689	0.6	0.17	12,856	0.3
1937	1,661,556	4,183,515	9,578	0.6	0.16	39,236	0.9
1938	1,659,064	4,364,580	14,974	0.9	0.25	103,280	2.4
1939	1,610,771	3,501,209	33,225	2.0	0.65	167,476	4.8
1940	1,569,745	4,531,963	60,076	3.8	0.98	317,974	7.0
1941	1,425,183	3,813,850	73,393	5.1	1.40	452,417	11.9
1942	1,250,485	5,098,313	88,608	7.1	1.40	631,867	12.4
1943	1,009,394	4,997,798	109,088	10.8	1.82	737,296	14.8
1944	786,600	5,087,925	113,134	14.4	1.93	796,910	15.7
1945	617,160	4,795,781	114,592	18.6	2.12	771,095	16.1
1946	531,479	4,985,338	122,257	23.0	2.24	737,974	15.0
1947	646,996	5,861,612	171,849	26.6	2.64	1,257,697	21.5
1948	820,388	7,279,296	224,775	27.4	2.78	2,052,578	28.2
1949	984,866	8,581,945	297,187	30.2	3.11	2,795,645	32.6

*FHA mortgages and (from 1945) VA mortgages.



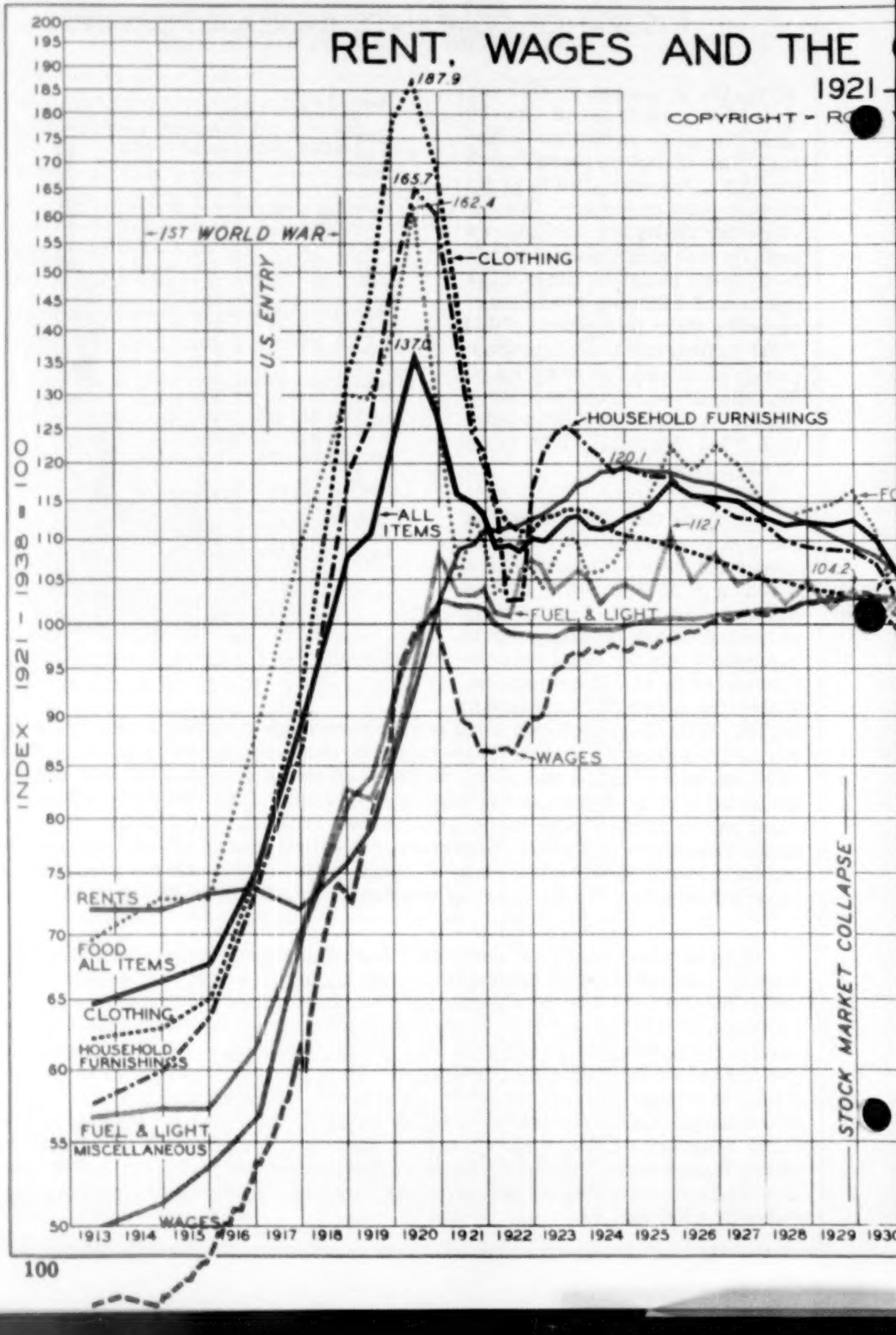
INSURANCE COMPANIES INCREASE HOLDINGS

DOLLAR value of real estate holdings of the 20 largest insurance companies has increased sharply since the end of the war, and is at its highest point in history. We include the mortgage portfolio as well as real estate owned in our term "real estate holdings." At the end of 1949 the real estate owned by these companies totaled $985 million and their mortgage portfolios had fattened up to $8,582 million. Combined, these two figures equalled a little more than $9-1/2 billion. (See table on page 98.)



Of particular significance in the last few years has been the robust increase in the number of housing projects owned by insurance companies. At the start of the last decade housing projects comprised only 2% of all real estate owned by the 20 companies. Today, this figure has increased to 30.2%. While it is true that some of this percentage increase is due to the fact that the dollar volume of all real estate owned by these companies is less in 1949 than in 1940, the fact remains that today the value of company-owned housing units is eight times as high as it was at the beginning of 1940. It is virtually assured that the chief participants in any large-scale urban redevelopment program must be the large insurance companies. Therefore, the dollar volume of company-owned housing units seems certain to grow by a considerable amount. On the opposite page is a chart showing the dollar value of housing projects owned by these 20 companies.

Insurance companies and some other mortgage lenders have been accused of being slow to "accept" government-guaranteed loans. The fact that before 1940 such a small number of their mortgages carried government guarantees is pointed to as evidence of their reluctance to seek the safety the government offered. Actually, however, the fact that in 1940 the 20 companies had less than 5% of their portfolio guaranteed by the government was not a question of "accepting" or "rejecting" the FHA. Mortgage guarantees were not necessary during that period. Their effect was almost entirely psychological and most big lenders knew it. Even as late as 1940 home loans up to 150% of value could be made with complete safety. More recently, rising construction costs and continuing pressures to put lendable funds to work have diverted an increasing number of home loans into the spacious storm cellar provided by FHA and VA.



RENT, WAGES AND THE
1921
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INDEX 1921 - 1938 = 100
200
195
190
185
180
175
170
165
160
155
150
145
140
135
130
125
120
115
110
105
100
95
90
85
80
75
70
65
60
55
50
187.9
165.7
162.4
137.0
120.1
112.1
104.2
-1ST WORLD WAR-
U.S. ENTRY
CLOTHING
HOUSEHOLD FURNISHINGS
ALL ITEMS
FUEL & LIGHT
WAGES
STOCK MARKET COLLAPSE
RENTS
FOOD
ALL ITEMS
CLOTHING
HOUSEHOLD FURNISHINGS
FUEL & LIGHT
MISCELLANEOUS
WAGES
1913
1914
1915
1916
1917
1918
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1920
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1922
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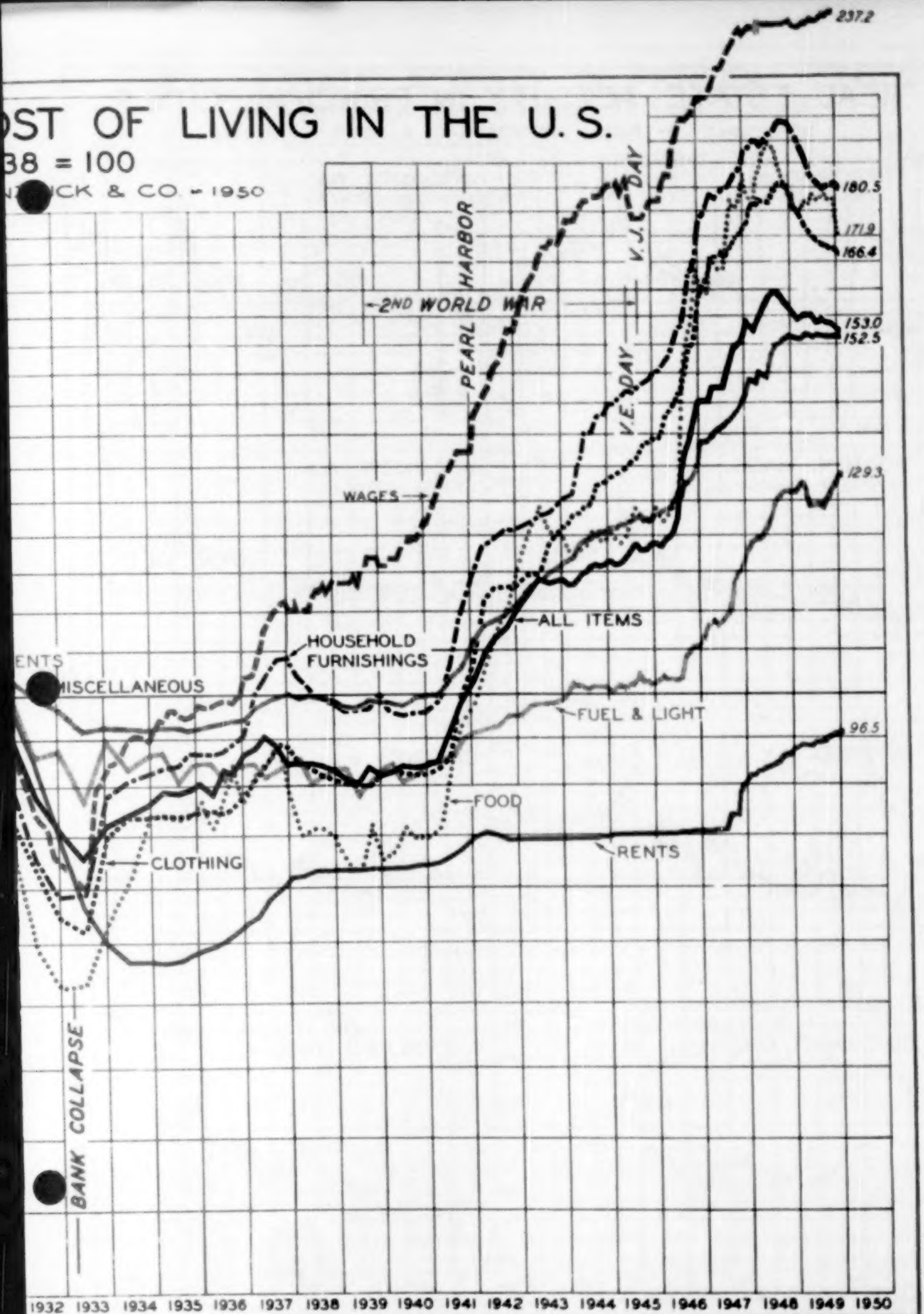
1926
1927
1928
1929
1930

100



OST OF LIVING IN THE U.S.
38 = 100
CK & CO. - 1950
237.2
180.5
171.9
166.4
153.0
152.5
129.3
96.5
PEARL HARBOR
V.J. DAY
V.E. DAY
2ND WORLD WAR
WAGES
ALL ITEMS
HOUSEHOLD FURNISHINGS
ENTS
MISCELLANEOUS
FUEL & LIGHT
FOOD
CLOTHING
RENTS
BANK COLLAPSE
1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942 1943 1944 1945 1946 1947 1948 1949 1950

REAL ESTATE ACTIVITY IN PRINCIPAL CITIES

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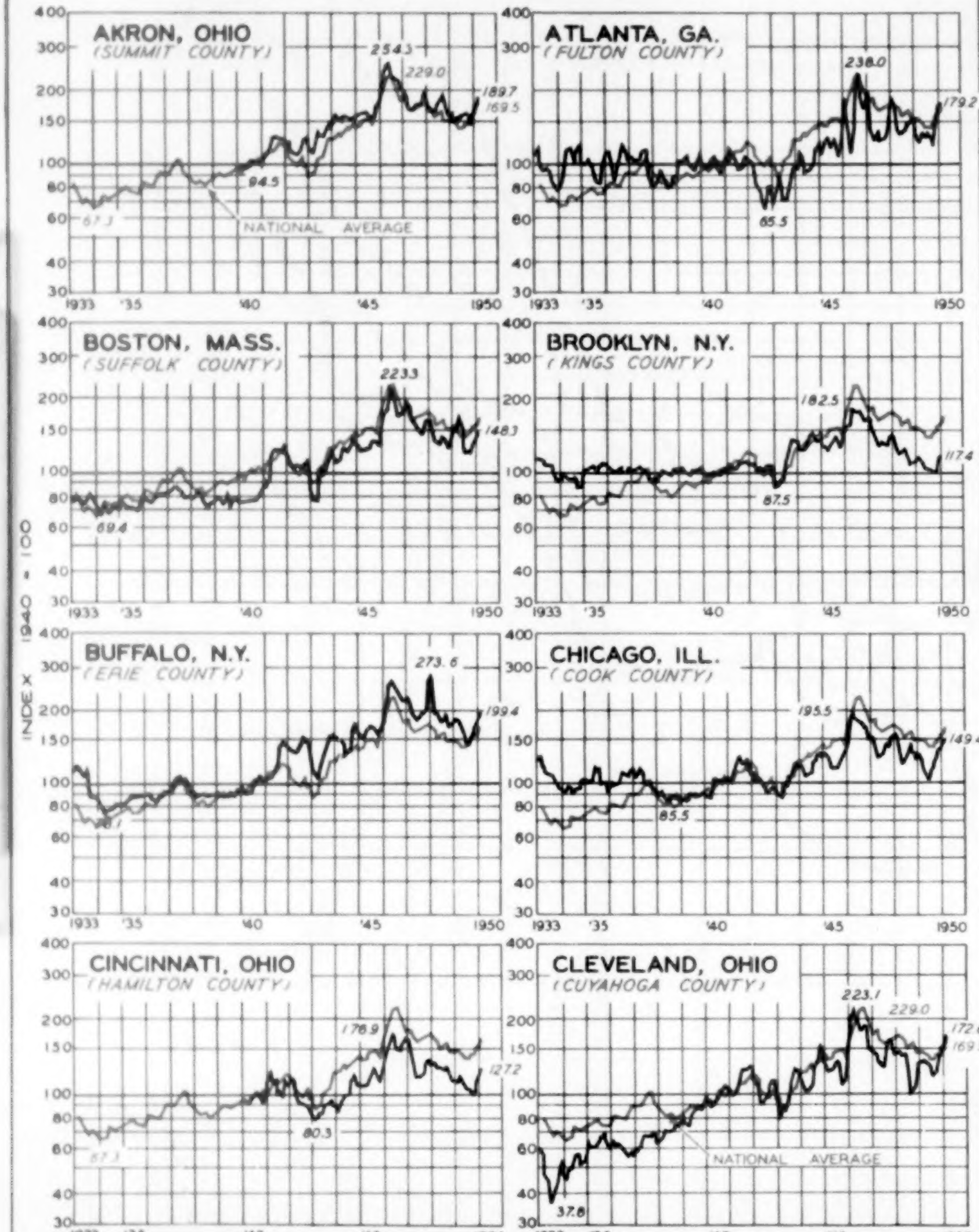
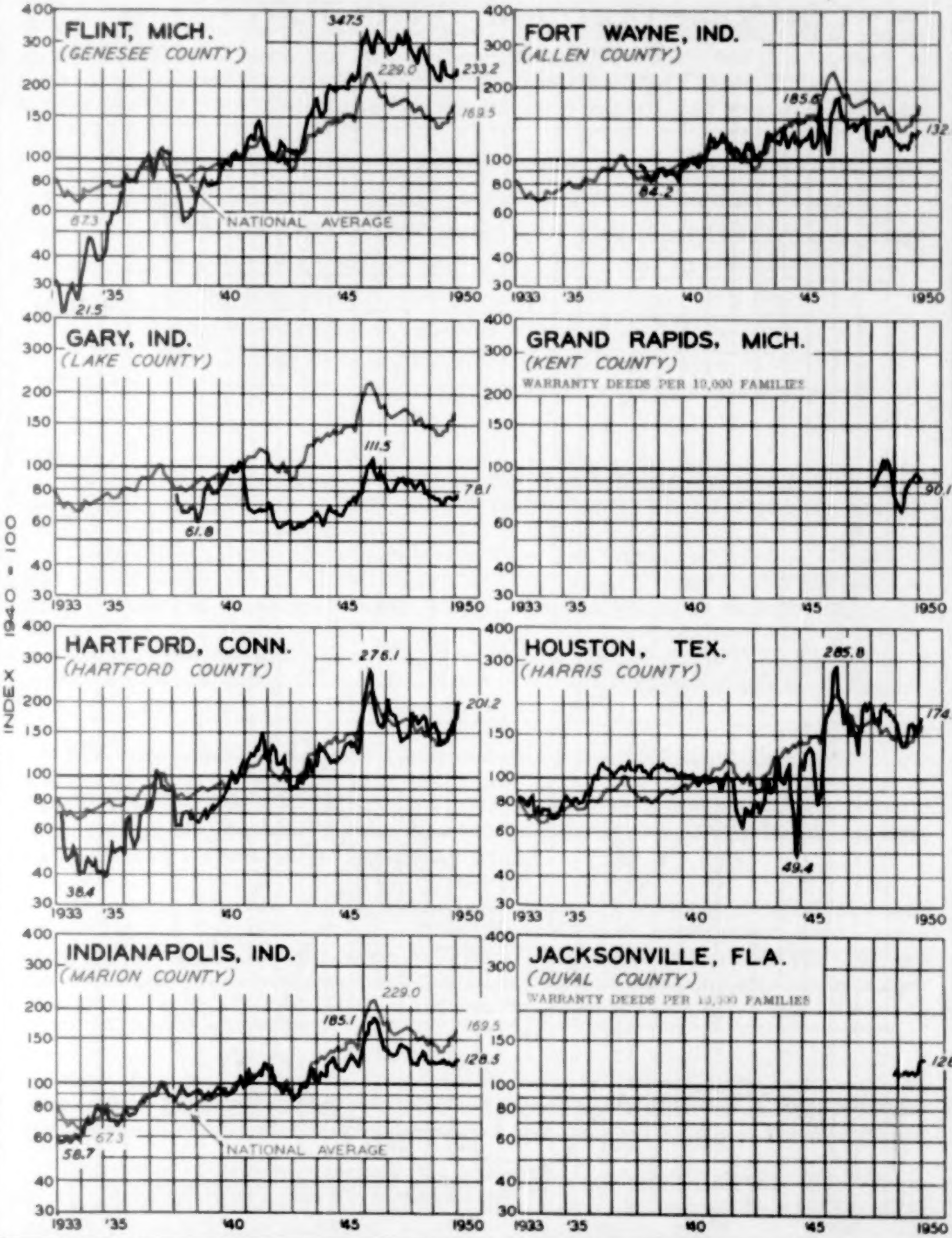
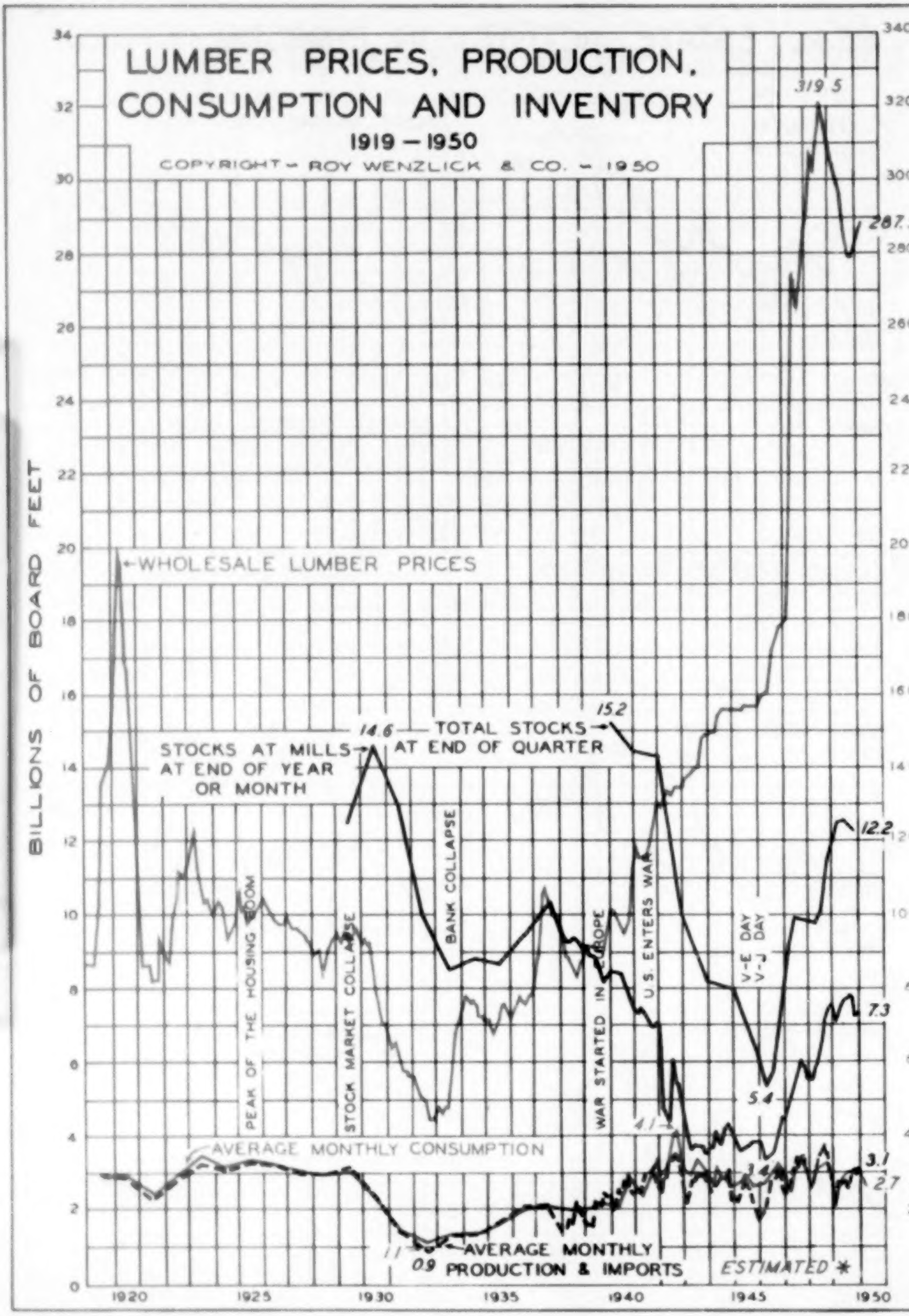


REAL ESTATE ACTIVITY IN PRINCIPAL CITIES




LUMBER PRICES, PRODUCTION, CONSUMPTION AND INVENTORY
1919 — 1950
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BILLIONS OF BOARD FEET
LUMBER PRICES - 1926 = 100
←WHOLESALE LUMBER PRICES
STOCKS AT MILLS AT END OF YEAR OR MONTH
14.6 — TOTAL STOCKS AT END OF QUARTER
15.2
319.5
287.5
12.2
7.3
5.4
4.1
3.1
2.7 *
1.1
0.9
PEAK OF THE HOUSING BOOM
STOCK MARKET COLLAPSE
BANK COLLAPSE
WAR STARTED IN EUROPE
U.S. ENTERS WAR
V-E DAY
V-J DAY
AVERAGE MONTHLY CONSUMPTION
AVERAGE MONTHLY PRODUCTION & IMPORTS
ESTIMATED *
1920
1925
1930
1935
1940
1945
1950

RECENT TRENDS WITHIN THE LUMBER INDUSTRY

IN our January Trends and Real Estate Analyst bulletins we remarked that we were puzzled by the figures on lumber consumption in the construction industry. Indications were that less lumber was being used in 1949 than in 1948, in spite of record-breaking construction. The Department of Commerce in a recent article verifies the fact that less lumber was used in 1949, and goes on to explain:

> *Recent trends in residential construction are believed to have resulted in generally lowered averages of lumber consumption per housing unit. Smaller individual units, lower proportions of frame structures in relation to the total, a higher percentage of multi-family dwelling units, and a considerable increase in utilization of other materials instead of lumber and its products have all contributed to this tendency. This has resulted in a downward revision of the previously published consumption estimates for 1949 with respect to construction usage of lumber and lumber products.*

Total lumber consumption for the first quarter of 1950 is estimated at 18% above that of the first quarter of 1949, but 3% below that of the first quarter of 1948.

During 1949 lumber production reached the high level of approximately 32 billion board feet - but was 11% below the 1948 total. Production in 1950 will no doubt continue to be at near-boom levels, although not quite so high as the 1949 total. There is a good possibility that there will be some regional shift in lumber production. The minimum wage law is certain to have some effect on the Southern mills, particularly the smaller ones. Some of the small marginal mills are already shut down, and others report that they will close shortly.

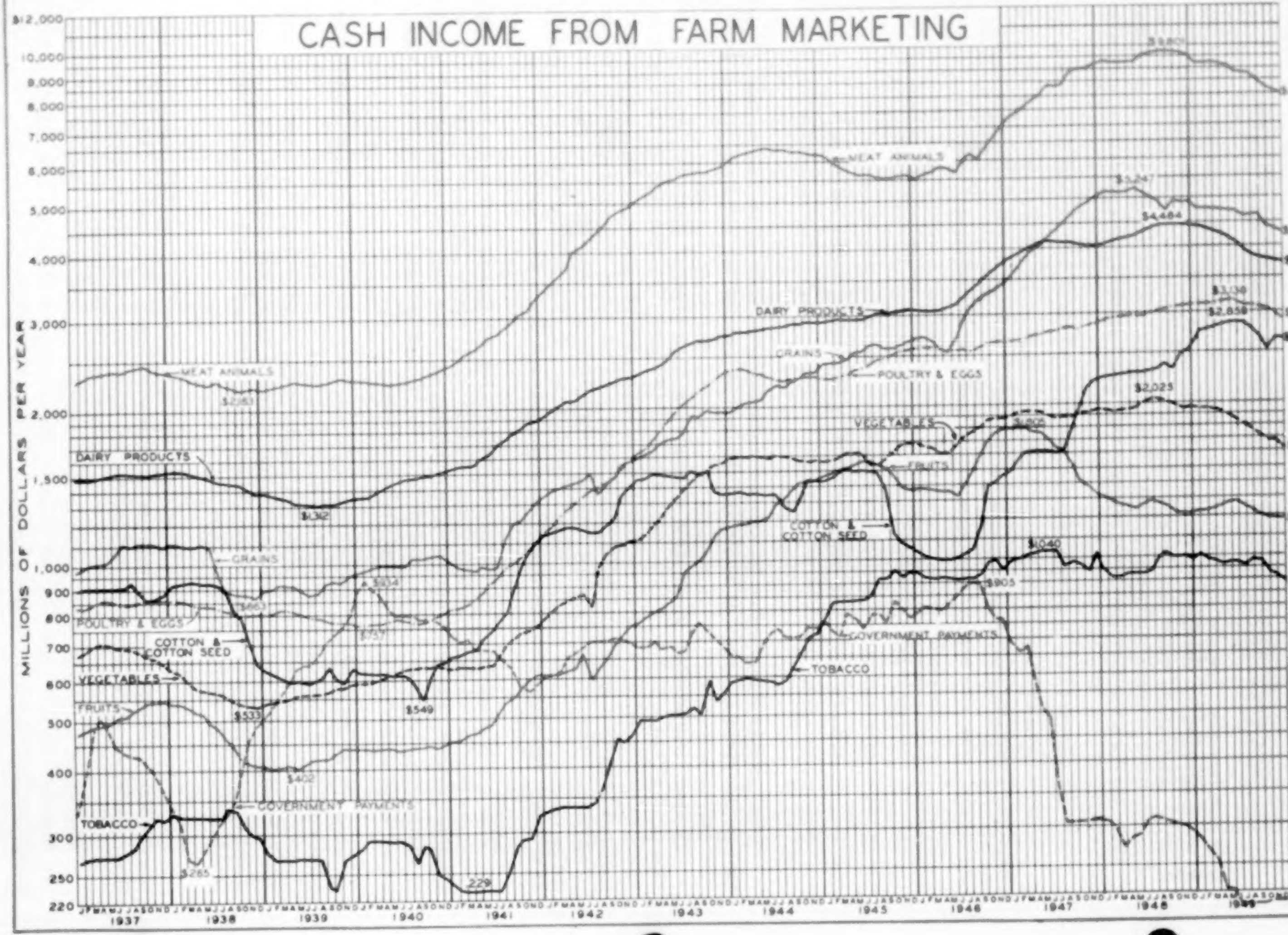
The law has not been in effect long enough for its full impact to be judged, but it seems logical to assume that it will result in (1) some increase in the price of lumber from Southern mills; (2) some decrease in the number of marginal mills in operation; and (3) a shift to substitute woods, probably those from the West Coast, as a result of lowered output and higher prices.

Recent devaluation of Canadian currency has resulted in rapidly increased importation of Canadian lumber. These imports have chiefly been water-borne shipments of softwoods from western Canada to our East Coast. Last year marked the second year in a row that our lumber imports exceeded our exports by a considerable margin. During 1948 and 1949 we imported between 2-1/2 and 3 times as much lumber as we exported.

Last year also marked the first time in the postwar period that lumber stocks decreased. Although consumption was somewhat lower than that of 1948, production was lower still, resulting in something less than a 2% drop in lumber stocks.

Wholesale prices of most major lumber species are lower than they were during the summer of 1948, but red oak flooring has shown the biggest drop (18%), while Southern pine has held steadiest, declining approximately 7%.

CASH INCOME FROM FARM MARKETING



FARM INCOME TAKES BIG DROP

ALTHOUGH gross farm income in 1949 was 10% below that of 1948, the net income realized by farm operators was down 17% below the 1948 figure. While 1948 was the peak year for gross farm income, the year 1947 was the peak year for net farm income. In that year net income to farm operators reached $17.8 billion. In 1949 the net income figure was $13.8 billion. Therefore, farm net income in 1949 was $4.0 billion (22%) below that reached in the peak year of 1947.

Gross farm income to farmers is a combination of (1) cash receipts from farm marketings; (2) government payments to farmers; (3) home consumption of farm products; and (4) rental value of farm dwellings. In 1949 the income values of the first three items declined, while the rental value of farm dwellings increased somewhat. The total decrease was $3.5 billion, or 10% below the 1948 gross income of $35.3 billion. The factor that contributed most to this decline in gross farm income was the drop of $3.0 billion in cash receipts from farm marketings.

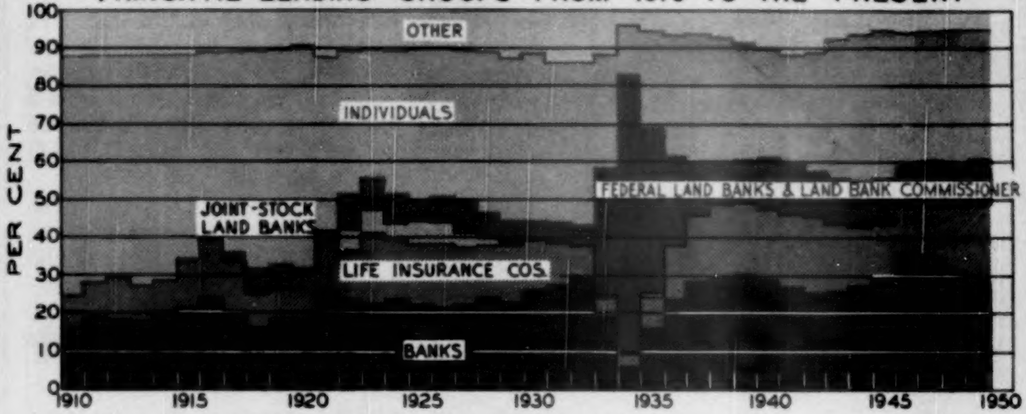
There were only five States that showed an increase in gross farm income during 1949. Florida, benefiting from higher prices of citrus fruits, led all the rest with a rise of 19% in gross farm income. Texas, with an increase in wheat and cotton sales, was second with a rise of 10%. Increased cotton sales also boosted Arizona farm income 7%, and New Mexico's 3% above the 1948 level. The relatively unimportant (agriculturally) State of Delaware showed an increase of 2%.

Gross farm income in all other States declined from its 1948 level. North Dakota farmers, with a drop of 32%, suffered the greatest shrinkage. Their loss was caused by lower prices and smaller marketing of wheat and flax seed. Montana farmers sold less grain and cattle at low enough prices to see their gross incomes fall a jolting 24%. In Nevada, ranchers failed to sell as many beef animals as they did in 1948. This, coupled with lower prices, dropped gross income in that State 22%.

Lower farm wages and the general decline in farm incomes are virtually certain to result in greater migration of agricultural workers to the cities. The resulting increase in the nonfarm labor force could very easily increase unemployment in the cities and have a dampening effect on wage raises. In fact, the result might be a decrease in production costs, either from rising labor efficiency or from slightly lower wages, or both.

As we pointed out in our January 31, 1950, Agricultural Bulletin, average value per acre of all United States farm lands is about 6% below its 1948 peak, with the greatest declines occurring in the Pacific Coast States. It appears that farm lands have definitely passed their peaks and will continue to decline slowly for some time. Thus the ramifications of lower prices for farm products spread first to farm incomes, then to farm land values and then to farm wages. Eventually these effects may also spread to the city workers, bringing more competition for jobs. The latest count on unemployed is 4.7 million. There are some economists who make light of unemployment, maintaining that the number of persons employed is more significant. It is also pointed out that the increase in unemployment is largely the result of new persons entering the labor force. While both of these observations are true, the facts remain that unemployment has been increasing slowly since the end of the war and that employment has been in a gradual decline since the middle of 1948. We have not yet been able to interpret these trends as favorable.

PERCENTAGE OF NEW FARM MORTGAGES MADE BY PRINCIPAL LENDING GROUPS FROM 1910 TO THE PRESENT



The chart above shows the changes that have taken place in farm financing since 1910. In that year the financing of farms was carried on almost entirely by individuals and banks. Since then other financial agencies have come into being and have played a major part in farm loans. The Land Bank and Land Bank Commissioner loans have played an outstanding part in farm financing, particularly during the mid-thirties. Insurance companies have also increased their participation in farm financing. Since 1946 the percentage of farms financed by banks has dropped from 35% to 27% and the percentage financed by insurance companies has risen from 13.5% to 21%.

The chart below shows the principal lending groups that engage in nonfarm financing. Savings and loan associations are the most important group in this field, followed by banks and individuals. During the last two or three years the participation by banks has been dwindling slowly. In early 1947 banks made 27.2% of the nonfarm loans, but today this figure stands at 20.5%. This drop has been offset by increased participation on the part of insurance companies and mutual savings banks.

PERCENTAGE OF NEW NON-FARM MORTGAGES MADE BY PRINCIPAL LENDING GROUPS FROM 1939 TO THE PRESENT